KPMG

BOSSIER MEDICAL CENTER

Financial Statements

June 30, 1999

(With Independent Auditors' Report Thereon)

KPMG

700 Louisiana
Houston, TX 77002

Telephone 713 319 2000
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Independent Auditors' Report

The Board of Directors
Bossier Medical Center:

We have audited the accompanying balance sheet of Bossier Medical Center (the Hospital) as of June 30, 1999, and the related statements of operations and changes in fund balance, and cash flows for the six months then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bossier Medical Center as of June 30, 1999, and the results of its operations and its cash flows for the six months then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 1999 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The year 2000 supplementary information in note 12 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that the Hospital is or will become year 2000 compliant, that the Hospital's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Hospital does business are or will become year 2000 compliant.

KPMG LLP

August 19, 1999

BOSSIER MEDICAL CENTER

Balance Sheet

June 30, 1999

Assets

Current assets:		
Cash and cash equivalents	$	371,121
Patient accounts receivable, net of allowances for contractual adjustments and doubtful accounts of $8,822,241		5,722,445
Prepaid expenses and other assets		148,542
Assets whose use is limited - under revenue bond ordinance - held by trustee (note 6)		4,370,154
Due from the City of Bossier City (note 2)		15,605,332
Cash held in escrow (note 2)		2,340,000
Total current assets		28,557,594
Assets whose use is limited - pursuant to Louisiana Workers' Compensation Act (note 12)		250,000
Other assets		23,596
Total assets	$	28,831,190

Liabilities and Fund Balance

Current liabilities:		
Accounts payable and accrued expenses	$	1,316,897
Accrued salaries and payroll-related costs		355,975
Due to Christus (note 2)		114,541
Accrued third-party payor liabilities		819,511
Interest payable on long-term debt, including call premium (note 7)		201,381
Long-term debt (note 7)		4,165,000
Total current liabilities		6,973,305
Fund balance		21,857,885
Commitments and contingent liabilities (notes 7, 9, 10 and 12)		
Total liabilities and fund balance	$	28,831,190

See accompanying notes to financial statements.

BOSSIER MEDICAL CENTER

Statement of Operations and Changes in Fund Balance

Six months ended June 30, 1999

Operating revenues:	
Net patient service revenue (note 5)	$ 18,560,929
Other	152,849
Total operating revenues	18,713,778
Operating expenses:	
Salaries and wages	10,838,932
Employee benefits and payroll taxes	1,812,433
Supplies and materials	3,513,402
Purchased services	1,773,369
Provision for doubtful accounts	1,918,512
Other operating expenses	3,742,429
Depreciation and amortization	1,293,999
Interest expense	198,111
Total operating expenses	25,091,187
Operating loss	(6,377,409)
Nonoperating gains (losses):	
Investment return	140,554
Gain on sale of hospital assets (note 2)	171,997
Loss on disposal of property and equipment	(51,053)
Net nonoperating gains	261,498
Deficit of revenues and gains over expenses and losses	(6,115,911)
Transfer of Foundation assets (note 11)	(338,371)
Fund balance at beginning of period	28,312,167
Fund balance at end of period	$ 21,857,885

See accompanying notes to financial statements.

BOSSIER MEDICAL CENTER

Statement of Cash Flows

Six months ended June 30, 1999

Cash flows from operating activities:	
Deficit of revenues and gains over expenses and losses	$ (6,115,911)
Adjustments to reconcile deficit of revenues and gains over expenses and losses to net cash used in operating activities:	
Provision for doubtful accounts	1,918,512
Depreciation and amortization	1,293,999
Interest expense	198,111
Investment return on long-term debt funds	(20,716)
Gain on sale of hospital assets	(171,997)
Loss on disposal of property and equipment	51,053
Changes in assets and liabilities:	
Decrease in patient accounts receivable, net of provision for doubtful accounts	876,977
Decrease in prepaid expenses and other assets	657,831
Increase in other assets	(4,883)
Decrease in accounts payable and accrued expenses	(281,043)
Decrease in accrued salaries and payroll-related costs	(412,756)
Decrease in accrued vacation	(331,598)
Decrease in accrued third-party payor liabilities	533,706
Total adjustments	4,307,196
Net cash used in operating activities	(1,808,715)
Cash flows from investing activities:	
Investment return	140,554
Sales of investments, net	3,824,397
Purchases of property and equipment	(960,891)
Proceeds from sales of property and equipment	51,277
Transfer of Foundation assets	(338,371)
Net cash provided by investing activities	2,716,966
Cash flows from financing activities:	
Interest paid on long-term debt	(189,598)
Principal payments on long-term debt	(545,000)
Net cash used in financing activities	(734,598)
Increase in cash and cash equivalents	173,653
Cash and cash equivalents at beginning of period	197,468
Cash and cash equivalents at end of period	$ 371,121

See accompanying notes to financial statements.

(1) Description of Business and Organization

Bossier Medical Center (the Hospital) is a municipal health care center owned and operated by the City of Bossier City, Louisiana. The Hospital is licensed as a general acute care hospital by the Louisiana Department of Health and Hospitals to operate 169 beds.

The Hospital is a component unit of the City of Bossier City (the City) and was created by Ordinance No. 842 of 1964. The current City Charter specifically includes the Hospital among the departments of the City and creates a Board that is appointed by the Mayor and approved by the City Council. The Board is directly answerable to the City Council for various hospital operations and budget. The Hospital is operated as a self-supporting unit.

The financial statements include only those accounts and transactions which relate to Bossier Medical Center and the Bossier Medical Center Healthcare Foundation.

(2) Sale of Hospital Assets

Effective June 29, 1999, the City sold all of the Hospital's property and equipment and inventories to Christus Health Northern Louisiana (Christus). Commitments, contracts, leases and agreements relating to the property, and all licenses and permits to the extent assignable, were included in the asset sale.

Christus began operating the hospital, using the name "Bossier Medical Center" on June 30, 1999. Christus assumed the responsibility and liability for treating patients at that time and retained the majority of the Hospital's employees. Christus also assumed the accrued vacation and sick time liability of employees who were retained.

A summary of Hospital assets sold by the City is as follows:

Assets sold:	
Property and equipment	$ 17,564,562
Inventories	786,155
Other assets	25,909
	$ 18,376,626

The sale price consisted of $17,911,368 in cash and assumptions of liabilities (accrued vacation and sick time) of $637,255. The Hospital recognized a gain of $171,997 on the asset sale.

(Continued)

At the closing on June 30, 1999, $15,675,909 was paid to the City by Christus and $2,235,459 was placed in an escrow account for the Hospital by Christus. The Hospital's balance sheet at June 30, 1999 includes the amount paid to the City by Christus in the Due from the City of Bossier City receivable. The cash held in escrow, representing the amount funded by Christus, will be released to the Hospital upon satisfactory settlement of certain contingencies. The Hospital expects that it will receive the full amount of cash held in escrow. In addition, the Hospital has recorded a liability at June 30, 1999 in the Due to Christus liability which primarily represents a purchase price adjustment relating to inventory.

In connection with the asset sale, the Hospital's defined benefit pension plan was terminated on June 30, 1999 (see note 10), and the Hospital's revenue bonds payable were repaid on July 1, 1999 (see note 7).

(3) Summary of Significant Accounting Policies

Proprietary Fund Accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Accounting Standards

Pursuant to Statement of Governmental Accounting Standards No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board issued after November 30, 1989.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Amounts reimbursed for services rendered to patients covered under the Medicare and Medicaid programs are generally less than the established billing rates. The Hospital also provides services to beneficiaries of certain other third-party payor programs at amounts less than its established rates based on contractual agreements. Differences between the established billing rates and amounts reimbursed are contractual adjustments.

Certain amounts receivable or payable under reimbursement agreements with the Medicare and Medicaid programs are subject to examination and retroactive adjustment. Provisions for estimated retroactive adjustments under such programs are provided in the period the related services are rendered and adjusted in future periods as final settlements are determined. A summary of the basis of reimbursement from major third-party payors follows.

- **Medicare** - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services and certain outpatient services related to Medicare beneficiaries are paid based on cost reimbursement methodologies. The Hospital is paid for cost reimbursable items at an interim rate with final settlement determined after submission of annual cost reports by the Hospital and audits by the Medicare fiscal intermediary. Outpatient services are paid based on the lower of reasonable costs or customary charges, a fee schedule or blended rates.

- **Medicaid** - Inpatient services are paid at prospectively determined per diem rates. Outpatient services are paid based on a cost reimbursement methodology.

- **Other** - The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Third-party Payor Arrangements

The Hospital participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. During the six months ended June 30, 1999, approximately 47% of the Hospital's patient service charges were related to services provided to Medicare and Medicaid program beneficiaries.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from Medicare and Medicaid programs.

Revenues derived from the Medicare program are subject to audit and adjustment by the fiscal intermediary and must be accepted by the Health Care Finance Administration before settlement amounts become final. Revenues derived from the Medicaid program are subject to audit and adjustment and must be accepted by the Department of Health and Hospitals of the State of Louisiana before settlement amounts become final. Final settlements for both the Medicare and Medicaid programs have been made through December 31, 1996.

(Continued)

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care and these amounts are not expected to result in cash flows, they are not reported as revenue.

Uncollectible amounts from patients who do not meet the criteria under the Hospital's charity care policy are included as operating expenses in the provision for doubtful accounts.

Classification of Activities

Transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

The Hospital provides general health care services, including acute inpatient, subacute inpatient, outpatient, ambulatory, and home care to residents within its community and the surrounding areas, and incurs related general and administrative expenses.

Cash Equivalents

Cash equivalents include highly liquid investment instruments purchased with original maturities of three months or less. Investments included in assets whose use is limited are not considered to be cash equivalents for purposes of the statement of cash flows.

Assets Whose Use is Limited

Assets whose use is limited include assets held under a bond indenture agreement and a certificate of deposit held by trustee under workers' compensation funding arrangements. At June 30, 1999, these funds consisted principally of cash, certificates of deposit, and U.S. treasury bills.

Allowances for Estimated Uncollectible Receivables

Allowances for estimated uncollectible patient accounts receivable are established through charges to current year expenses. Receivables are reduced by allowances for uncollectibles when management believes that the collectibility of the receivables is unlikely.

Investments and Investment Return

The Hospital records all investments at their fair value based on quoted market values with realized and unrealized gains and losses included in operations.

Investment return (interest, dividends, and realized and unrealized gains and losses) on investments on revenue bond funds that are held by trustee are included in other revenues. Such investment return totaled $20,716 during the six months ended June 30, 1999. Investment return on all other investments are reported as nonoperating gains.

(Continued)

All deposits and investments are with contracted banks in interest-bearing accounts, registered in the Hospital's name, which are fully secured at the balance sheet date by Federal Deposit Insurance Corporation coverage and the depository banks' pledge of securities, or are collateralized by obligations of the United States or its agencies and instrumentalities.

Inventories

Inventories of drugs and medical supplies are stated at the lower of cost or market, with cost determined by use of the first-in, first-out valuation method.

Property and Equipment

Property and equipment are recorded at cost, or if donated, at fair value at the date of donation. Assets are depreciated on a straight-line basis over their estimated useful lives. The range of estimated useful lives is 15 to 40 years for the building and its components and 3 to 20 years for equipment.

Construction in Progress

The Hospital capitalizes interest cost as a component of the cost of construction in progress.

Impairment of Long-Lived Assets

When events or changes in circumstances indicate that the carrying amount of property and equipment, and intangible or other long-lived assets related to specifically acquired assets may not be recoverable, an evaluation of the recoverability of currently recorded costs is performed. When an evaluation is performed, the estimated value of undiscounted future net cash flows associated with the asset is compared to the asset's carrying value to determine if a write-down to fair value is required.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The Hospital is self-insured for certain risks (see note 12).

Income Taxes

The Hospital is exempt from Federal and state income taxes because the Hospital is considered an integral part of a governmental unit.

(Continued)

(4) Cash and Investments

At June 30, 1999, the bank balances of the Hospital's deposits were entirely insured or collateralized with securities held in the Hospital's name by the trust department of a bank other than the pledging bank.

The Hospital had an investment in a U.S. Treasury bill with a balance of $4,363,202 at June 30, 1999 (see note 6). This investment was classified as Category 1, which indicates that the security is insured or registered, or is held by the Hospital or its agent in the Hospital's name.

Statutes authorize the Hospital to invest in direct obligations of the U. S. Government or its agencies, certificates of deposit of state banks or national banks having their principal office in the State of Louisiana, and any other federally insured investments, guaranteed investment contracts issued by a financial institution having one of the two highest rating categories published by Standard & Poor's or Moody's, and mutual or trust funds registered under the Securities and Exchange Commission (provided the underlying investments of these funds meet certain restrictions).

(5) Net Patient Service Revenue

Net patient service revenue during the six months ended June 30, 1999 is as follows:

Gross patient service revenue	$ 39,836,068
Less: Contractual adjustments	(21,178,614)
Charity	(96,525)
Net patient service revenue	$ 18,560,929

The level of uncompensated care provided, based on the Hospital's established billing rates, during the six months ended June 30, 1999 is as follows:

Contractual adjustments	$ 21,178,614
Charity	96,525
Provision for doubtful accounts	1,918,512
Total uncompensated care	$ 23,193,651

(6) Assets held by Trustee

Assets held by Trustee represent assets held under the 1987 Revenue Bond Ordinance. In connection with the redemption on July 1, 1999 of all outstanding revenue bonds payable (see note 7), the Hospital transferred cash from its revenue bond funds and from its board-designated assets to the bond redemption account before June 30, 1999. At June 30, 1999, assets held in the bond redemption account were as follows:

Cash	$ 154
U. S. Treasury bill	4,363,202
Accrued interest	6,798
	$ 4,370,154

(7) Revenue Bonds Payable

At June 30, 1999, the Hospital had revenue bonds payable consisting of Hospital Revenue Refunding Bonds, Series 1987, dated September 1, 1987. These bonds consisted entirely of fixed rate serial bonds bearing interest ranging from 7.4% to 7.85%, and requiring principal payments ranging from $580,000 to $840,000 through January 1, 2005. Principal and interest were secured by a pledge of the Hospital's revenue.

The revenue bonds were callable at the option of the City at a premium of 1.5% of the principal amount retired through June 30, 1999 and at a premium of 1% beginning July 1, 1999.

All revenue bonds were called and redeemed on July 1, 1999. Upon redemption, the Hospital incurred a loss on early extinguishment of debt of $41,650, which represents the call premium. This amount has been included in interest expense in the statement of operations.

(8) Transactions with the City of Bossier City

After the Hospital pays operating expenses and makes deposits as described in the 1987 Revenue Bond Ordinance, the City may transfer amounts, on an annual basis, from the Hospital's operating fund to the City's general fund (or any other fund the City designates). Transfers to the City may not exceed 5% of the Hospital's net property and equipment balance as shown on the most recently audited financial statements. During the six months ended June 30, 1999, there were no such transfers to the City.

(9) Leases

The Hospital leases medical and administrative equipment and physicians' office space under operating leases with terms that vary from month-to-month to five years. Total rental expense for all operating leases for the six months ended June 30, 1999 was $399,159.

(Continued)

In connection with the sale of assets to Christus (see note 2), substantially all leases were transferred to Christus effective June 30, 1999 or terminated. The Hospital's remaining noncancelable operating lease commitments at June 30, 1999 are as follows:

Year ended June 30,		
2000	$	278,380
2001		46,897
Total	$	325,277

(10) Retirement Plan

Plan Description

Bossier Medical Center Employees' Pension Plan (the Plan) is a single-employer noncontributory defined benefit public employee retirement system (PERS) administered by the City. The Plan covers all employees who meet plan-specified length of service requirements. The Plan provides retirement, death and disability benefits to plan members and beneficiaries. The Hospital's board of directors has the authority to establish and amend benefit provisions. The City issues a publicly available financial report that includes financial statements and required supplementary information for the Plan.

Funding Policy

The contribution requirements of the Hospital are established and may be amended by the Hospital's Board of Directors. The Hospital is required to contribute at an actuarially determined rate of annual covered payroll; the contribution rate was 8.3% for the six months ended June 30, 1999.

Annual Pension Cost and Net Pension Obligation

For the six months ended June 30, 1999, the Hospital's pension cost of $460,000 was equal to 100% of the Hospital's actual contributions. The required contributions for 1999 were determined as part of the January 1, 1999 actuarial valuation using the aggregate actuarial cost method. This method does not identify or separately amortize unfunded liabilities. Significant actuarial assumptions included: (a) 7.0% investment rate of return, compounded annually, (b) projected salary increases of 3% per year compounded annually, attributable to inflation, (c) additional projected salary increases of 1% per year, attributable to seniority/merit, (d) no postretirement benefit increases, and (e) postretirement benefit values based on 7.5% interest and sex-specific 1983 Group Annuity mortality. The Plan's net pension obligation was zero at June 30, 1999.

The Hospital's pension liability at transition was determined in accordance with Statement No. 27 of the Governmental Accounting Standards Board and equaled zero before and after transition.

Termination

The Hospital's Board of Directors authorized termination of the Plan effective June 30, 1999 and all benefit accruals ceased on June 30, 1999. The Plan has sufficient assets to fund the termination liability, and any excess assets will be distributed among active participants. A request for determination regarding termination has been submitted to the Internal Revenue Service (IRS). Distribution of assets to Plan participants will occur following IRS determination which is expected to occur in 2000.

(11) Foundation

Bossier Medical Center Healthcare Foundation (the Foundation) is a non-profit corporation that raises funds for the Hospital. Until June 30, 1999, the Foundation's board of directors was appointed by the Hospital's board. Because of this control, the Foundation's assets and activities have been combined with those of the Hospital for financial reporting purposes. The Foundation's activity during the six months ended June 30, 1999, was as follows:

Net assets, December 31, 1998 (primarily cash)	$	362,440
Revenue (primarily contributions)		13,548
Expenses		(37,617)
Net assets before transfer (primarily cash)	$	338,371

Effective June 30, 1999, the Foundation changed its name to Bossier Healthcare Foundation and it is no longer controlled by the Hospital. The assets of the Foundation are now to be used to benefit the ongoing hospital entity. As a result, the net assets of the Foundation are reported as a transfer of fund balance at June 30, 1999.

(12) Commitments and Contingencies

Legal Proceedings

The Hospital has certain pending and threatened litigation and claims incurred in the ordinary course of business; however, management believes that the probable resolution of such contingencies will not exceed the Hospital's insurance coverages, and will not materially affect the financial position of the Hospital or the results of its operations.

A Federal investigation has begun of the Hospital's bid procedures for a 1997 construction project. The Hospital is cooperating in this investigation and will comply with all requests for data. The ultimate resolution of this inquiry and the amount of liability, if any, cannot be determined.

Professional Liability

The Hospital is qualified under the State of Louisiana medical malpractice program and has obtained coverage for the first $100,000 of professional liability per occurrence through the Louisiana Hospital Association Trust Fund (Trust Fund), effective through October 31, 1997, and through a commercial insurance carrier effective November 1, 1997. Additional coverage is provided by the Louisiana Patients' Compensation Fund (LPCF) for the next $400,000 of professional liability up to the present statutory maximum of $500,000 per claim (exclusive of additional amounts for future medical expense provided by law). The Trust Fund and the LPCF provide coverage on an occurrence basis, and the commercial coverage is provided on a claims made basis.

Workers' Compensation Insurance

The Hospital provides coverage for payment of compensation and benefits required of employers pursuant to the Louisiana Workers' Compensation Act. The Hospital is partially self-insured for workers' compensation claims incurred prior to November 1, 1998. Commercial carriers cover claims incurred prior to November 1, 1998 exceeding the $200,000 per incident stop-loss limitation up to an annual aggregate limit of $1,000,000, and claims incurred on or after November 1, 1998 up to $1,000,000 per incident. The Hospital is responsible for all workers' compensation claims incurred below the per incident limitation (for claims incurred prior to November 1, 1998) and in excess of the annual aggregate limitation. The Hospital has pledged a certificate of deposit in the amount of $250,000 at June 30, 1999, with the Office of Workers' Compensation for the State of Louisiana as collateral to secure the prompt payment of workers' compensation claims.

The Hospital records a liability for workers' compensation when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are reevaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors.

Year 2000 - Required Supplementary Information (unaudited)

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Hospital's computer programs or equipment that have date-sensitive software may recognize a "00" date as the year 1900 rather than the year 2000. This could result in computer system or equipment failures or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions or engage in normal business activities.

(Continued)

The City has developed a Year 2000 remediation plan for the Hospital and has begun testing and converting its computer systems and applications in order to identify and solve significant year 2000 issues. In addition, the City is discussing with its vendors the possibility of any communication difficulties or other disruptions that may affect the Hospital. To date, no significant concerns have been identified. The Plan provides for the conversion efforts to be substantially complete by December 15, 1999. There can be no assurance that the Year 2000 remediation plan will identify and resolve all of the Hospital's significant compliance issues on a timely basis and that costs associated with such activities will not have a material adverse effect on the Hospital's financial condition or results of operations.

Following the sale of Hospital assets to Christus (see note 2), Christus began operating the hospital on June 30, 1999. Year 2000 compliance for the ongoing hospital operations is the responsibility of Christus.

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Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Bossier Medical Center:

We have audited the financial statements of Bossier Medical Center (the Hospital) as of and for the six months ended June 30, 1999, and have issued our report thereon dated August 19, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Hospital in a separate letter dated August 19, 1999.

This report is intended solely for the information of the board of directors, management, and the State of Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

August 19, 1999

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Houston, TX 77002

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August 19, 1999

Board of Directors
Bossier Medical Center
2105 Airline Drive
Bossier City, LA 71111

Members of the Board:

We have audited the financial statements of Bossier Medical Center (the Hospital) as of and for the six months ended June 30, 1999, and have issued our report thereon dated August 19, 1999. In planning and performing our audit of the financial statements of the Hospital, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

Furthermore, our audit was not designed to, and does not, provide any assurance that a Year 2000 issue which may exist will be identified, on the adequacy of the Hospital's remediation plans related to Year 2000 financial or operational issues, or on whether the Hospital is or will become Year 2000-compliant on a timely basis. Year 2000 compliance is the responsibility of management.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows.

BANK ACCOUNT RECONCILIATIONS

Bank reconciliations were being completed each month, however, reconciling items were not being investigated and cleared each month. Bank reconciliations should be reviewed and approved by someone other than the preparer to ensure that any reconciling items are cleared in a timely manner.

CASH DISBURSMENTS

We noted that the support for cash disbursements (check copy and approved supporting invoices) did not always have an indication of review and approval by the Chief Financial Officer (CFO). We were informed that this occasionally occurred before the sale of the Hospital and departure of the CFO on June 30, 1999. The Hospital should adhere to its policy of having the CFO review and approve supporting documentation before any checks are released to vendors.

KPMG

Board of Directors
Bossier Medical Center
August 19, 1999
Page 2

JOURNAL ENTRIES

We noted several journal entries that did not bear an indication of approval by the Chief Financial Officer. All journal entries should be reviewed and approved by someone other than the preparer after review of supporting documentation. This review and approval process should be clearly documented on the journal entry.

* * * * * * *

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Hospital's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at anytime.

This report is intended solely for the information and use of the Board of Directors, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We take this opportunity to express our appreciation of the courtesy and cooperation extended to us by the employees of the Hospital during the course of our audit.

Very truly yours,

KPMG LLP